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BUSINESS BUDGETING

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Editor .... L. P. Haverkamp
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By: P.M. Chiuminatto
V.P. & Treasurer
The Charmin Paper Products Co.,

"GUIDES FOR FORWARD PLANNING"

I am not so sure that the subject of Creation and Control of Working Capital is of particular interest to those of you who are budget conscious and are particularly interested in detail.

However, I am sure that all of you have broader horizons than the preparation of budget details and that some of the thinking which management must do to enable the budget to be completed will be of interest to you.

The more we know about the other fellow's job, the better we can do our own and the better it is for us when the man above moves to a job of more responsibility, leaving a vacancy to be filled.

I have picked out the following subjects as being of particular interest. They have no special sequence in that they do not relate to one another. They do not follow in a particular manner, rather they are parts of various problems which confront management and on which decisions have to be made when a budget is being made or revised.

The subjects chosen are:

1. Generation of Working Capital
   We will try to answer the question of what happens to working capital when sales go up or down.
2. Pricing for the Proper Return on Investment
   We will discuss the proper pricing structure to insure a fair return on the assets used to produce the products being sold.
3. Dividend Payments
   We will answer a question often raised by management regarding the possibility of dividends being paid out of surplus during a period of inflation such as we are now passing through.
4. Return on Total Investment
   We will explore the concept of the return on total investment as it is being used by industry today.
5. Return on Expenditure for Capital Assets
   We will try to determine the proper ranking of expenditures for capital assets.
6. Ratio Control
   We will take a look at how some companies control the more important aspects of their business.
7. Keeping on the Profit Beam
   We will discuss why some companies get off the profit beam and what they can do about getting back on.

Don't be alarmed at the length of the list. We are not going to go into intimate detail on any one of these subjects. My task is to bring them to your attention in such a way as to make them them interesting enough for you to do some additional study and work to see if there is any application of the problem in your particular job or company.

GENERATION OF WORKING CAPITAL

One of the problems always facing management is the need for working capital if a sales expansion program is planned or what will happen to the present working capital if sales volume drops.

In using the term Working Capital, I do not refer to the usual meaning employed by accountants or financial men, which has been narrowed to the difference between current assets and current liabilities.

Working Capital, in this particular instance, means the total capital employed in the business. All the capital in business is working. Some of it turns over faster than others, but it is the sum total management needs to operate that is of primary concern to them.

In this connection management would be interested in two charts:

1. How do the assets vary with sales volume.
2. How do the liabilities vary with sales volume.

EXHIBIT

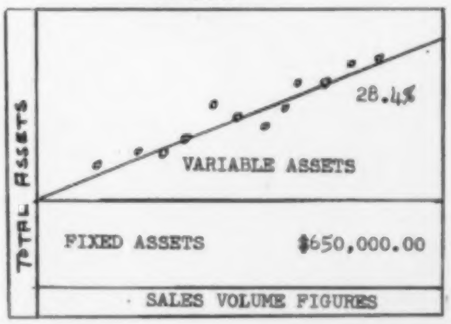
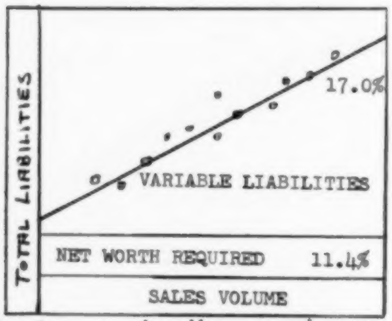


EXHIBIT II



As is usually the case in all accounting problems, there is the easy way to get what you want and the hard way to get what you want.

THE EASY WAY

In this case, the easy way is fairly accurate, but does not give you sufficient detail for proper future planning. It is, however, a starting point which should lead to better things.

The easy way is to draw two over-all charts, such as those shown in Exhibits I and II.

From these charts, you can obtain the figures required to determine the total assets needed to operate a business at any given level of sales volume.

The capital needed for any given volume of business is as follows:

BUSINESS VOLUME	CAPACITY	FIXED CAPITAL	VARIABLE CAPITAL	TOTAL CAPITAL
$1,200,000.00	80%	$650,000.00	$340,800.00	$ 990,800.00
1,500,000.00	100	650,000.00	426,000.00	1,076,000.00
1,875,000.00	125	650,000.00	532,500.00	1,182,500.00

THE HARD WAY

The hard way takes longer and requires more work and thought, but in the end, you have something that can be used for accurate future planning and at the same time, gives you a better understanding of the action of the assets in your business at varying levels of sales.

The hard way is to take each asset on the balance sheet and give it individual treatment by means of a graph or chart or management decision, because it might act differently at varying sales volume and this particular action will be hidden in the average or over-all picture. Such special action may be very important in your particular forecast or presentation.

It would be especially important if an expansion program were contemplated, because the fixed portion of the capital would not be the same. The $650,000.00 remains constant only within certain limits of production. Beyond that, it changes.

In drawing these individual charts, you follow these rules:

If the asset tends to be highly variable, you treat it as variable.

If the asset tends to be highly fixed, you treat it as fixed.

If the asset is what we call semi-variable, you break it down into two or more accounts, so as to make the new accounts highly variable or fixed in themselves.

If one wants to get technical, there is no such thing as a truly variable or truly fixed asset except under certain conditions and for a certain period of time.

That we will grant, but if we as accountants waited for technically perfect control, there would be no accounting. Therefore, we do the best we can with what we have and 85% accuracy is better than no answer at all.

So much for how you get your figures. It is up to each of you to determine how you are going to attack the problem in case you are interested--the hard way or the easy way.

WHAT ELSE?

What else do these charts tell us? Well, Exhibit I tells us this:

> For every dollar of increased sales over our present volume, we are going to need 28.4 cents of additional capital.

Exhibit II tells us that out of the 28.4 cents of capital, we can automatically raise 17 cents from our usual trade creditors and accrued liabilities.

This leaves 11.4 cents to be raised by either equity capital, borrowed capital or from our earnings and profits.

Now let us assume two conditions:

1. That our profits after taxes are 15% to net sales.
2. That our profits after taxes are 7% to net sales.

If we are going to generate 15 cents of profits out of each additional dollar of sales and we need 11.4 cents to finance the additional volume, we know we will be generating sufficient capital out of the additional sales to finance our own expansion. If our process time is of long duration, we might have to do some short term borrowing to carry us over from inventory to inventory, but we will not need any permanent working capital. We can pay our own way.

If we are going to generate 7 cents of profits out of each additional dollar of sales and we need 11.4 cents to finance the additional volume, we know that we are going to be short 4.4 cents. If we are planning a million dollar expansion, we

had better start looking for $44,000.00 of permanent additional capital, as well as some short term money if we have a long period from inventory to inventory.

When we drop below the break-even point, the pictures reverses itself. If we assume a 50% tax rate for easy calculation, we know that in the first case we are making 30% before taxes, and in the second case, 14% before taxes.

Now as our sales drop below the break-even point in case number one, our cash builds up at the rate of 11.4 cents for each dollar of lost sales, but our loss on the sales is 30 cents, so we lose 18.6 cents. If our sales drop a million dollars, we had better look for an additional $186,000.00

Now as our sales drop below the break-even point in case number two, our cash builds up at the rate of 11.4 cents for each dollar of lost sales, but our loss on the sale is 14 cents, so we lose 2.6 cents. If our sales drop a million dollars, we have to look for only $26,000.00.

Figures and charts such as this, whether they be by plant, product, product line or any other way you want to work them out, which enables you to determine the amount of capital you need for any given volume of business and what will happen to your working capital or cash position for any given set of circumstances, are invaluable to management in making the decisions they are faced with from day to day.

PRICING FOR THE PROPER RETURN ON TOTAL INVESTMENT

This is important, especially for those of you who are leaders in your field, and who determine, to a large extent, the general price structure for the industry.

If the leader follows a sound policy on pricing, then there will be healthy competition and a place for the small and medium sized business. If the pricing policy is not sound, then the small and medium sized business is usually priced out of the market and the big fellows fight it out among themselves. You also hold on umbrella over a single product manufacturer--keep him in business by over pricing.

For those of you who follow the leader, it is of interest only if you would like to know what you ought to be getting, as compared to what competition is forcing you to take.

In order to determine the proper selling price, you have to do two things:

1. Determine the return on investment you want to make.
2. Determine certain balance sheet ratios to sales and cost.

A SPECIFIC EXAMPLE

At this time we are not going to go into a discourse on return on investment. We will cover that subject a little later on. For the time being, we will assume that our minds are made up and we are going to be satisfied with 19%.

Further assume that our sales are $1,000,000.00. Our balance sheet reveals the following ratios:

		Ratio To Sales	Ratio To Mfg. Cost
$ 50,000	Cash	.0500	
40,000	Accts. Receivable	.0400	
49,300	Raw Mat. Inventory		.0833
49,300	Finished Inventory		.0833
591,700	Plant and Equipment		1.0000
$780,300	Total Assets		
	Total Ratio to Sales	.0900	
	Total Ratio to Cost		1.1666
	Add desired 19% profit	.0171	.2216
	Add selling and other expenses budget to sales	.2600	
	Total	.2771	.2216

Now with these ratios we can determine the desired selling price by the simple formula of:

$$\frac{1 \text{ Plus } .2216}{1 \text{ Minus } .2771} \quad \text{Equals } 1.69$$

Therefore, in order to obtain a 19% return on investment on any product or product line, the selling price has to be 1.69 times the cost of production.

To prove it, let us take the case of an item which costs $5.00 to manufacture:

$5.00 times 1.69 equals $8.45, which should be the proper selling price.

118,343 units times $8.45 equals	$1,000,000.00
118,343 units times $5.00 cost	$ 591,715.00
Selling and Administrative Expenses 26%	$ 260,000.00
Total Cost	$ 851,715.00
Net Profit	$ 148,285.00
Total Investment	$ 780,300.00
Return on Investment	= 19%

MULTIPLE PRODUCT – DIFFERENT RETURNS

Now for those of you who want to be more scientific and who do not like to price all your products on the basis of one mark-up on cost because of the variance in material, labor and

expense mix in the various products, I will give you a short cut to pricing on a conversion cost basis.

Net Sales	$20,400.00
Material Cost	$ 8,000.00
Labor and Expense	6,000.00
Total Cost	$14,000.00
Total Assets Employed	$32,000.00
Return on Investment Desired	20%
Sales to Material Cost	$ 2.55
Labor and Expense to Material Cost	.75

Now, to determine the formula for the 20% return, we first determine the turnover period of our material from the point of purchase to the receipt of cash from our accounts receivable.

If we assume a turnover of two times a year, we have, obviously, a mark-up on material of 10% or a percentage figure of 1.10.

If we turn our material over twice a year, this will give us a 20% profit on the material part of our product cost.

Then, if we apply the formula of 2.55 minus 1.10 divided by .75 we get 1.93. This is the mark-up we need on labor and expense to equal 20% return on that portion of our product cost.

So we wind up with the following facts:

For this particular product or product line or plant, whatever it is, if we want a 20% return on total assets employed, we multiply the

Material cost by	1.10
Labor and expense cost by	1.93

This should be subject to proof as follows:

Assume our selling price is $1.00 a unit.

$1.00 divided by 2.55 equals	
.392 times 1.10	
.392 times .75 equals	.432
.294 times 1.93	.568
Total selling price	$1.00

DIVIDEND PAYMENTS

In connection with this dividend question, I would like to bring out one factor which is missed by too many managements, and those who prepare the information for them.

Most of the Managements have a policy on dividend payments, but it is the interpretation of the policy that they do not understand.

As an example, assume that a company has a stated policy of paying out 50% of its earnings as dividends, and the facts in the case are as follows:

Fixed Assets at Book Cost	$10,000,000.00
Depreciation Rate	5%
Replacement Value	20,000,000.00
Earnings After Taxes	1,400,000.00
Dividend Policy	50%

On the basis of the established policy, the dividend would be $700,000.00, and there would be $700,000.00 left in the business for future expansion and additional working capital.

If you do this, you are paying dividends out of surplus. The dividends calculation should have been as follows:

Earnings before taxes, assuming a 50% tax rate	$2,800,000.00
Add back depreciation actually deducted	500,000.00
Deduct depreciation on basis of present replacement value	1,000,000.00
Dividend earnings before taxes	$2,300,000.00
Dividend earnings after taxes actually paid	900,000.00
Dividends to be paid at the rate of 50% of earnings	450,000.00
Retained for future expansion and working capital	950,000.00
Paid under previous plan	700,000.00
Increase in funds reinvested in the business	250,000.00

This policy will allow you to replace your existing equipment when it is worn out without the necessity of asking the stockholders to put up more money or funding the cost with long term debt.

RETURN ON TOTAL INVESTMENT

This is the ratio that tells management how effectively it is using the money entrusted to it by the stockholders, the bond holders and the trade creditors.

This is the ratio which tells bankers if the business is a good, bad or indifferent risk for a loan.

This is the ratio which tells the stockholder whether or not he should invest additional funds in the business or take out what he has before it is all gone.

If management does not know what the return on total assets employed is by the plants, by products or product lines, it will not know if its policies are headed in the right direction or whether the expansion program selected is the most profitable one.

What is Return on Total Investment? The generally accepted formula is asset turnover multiplied by the profit percentage.

$$\frac{\text{SALES}}{\text{TOTAL ASSETS}} \quad \text{X} \quad \frac{\text{PROFIT}}{\text{SALES}}$$

$$\frac{1,000,000.00}{400,000.00} \quad 2.5 \quad \frac{100,000.00}{1,000,000.00}$$

It is true, you can get the same answer by dividing the net profits by the total assets

$$\frac{100,000.00}{400,000.00} \quad \text{equals } 25\%$$

The advantages of the accepted formula is that it gives you two bench marks:

ASSET TURNOVER

SALES PROFIT

If the return on total investment is not what it should be, you can determine whether it is caused by too little turnover of assets or too little profit as compared to that of your competitors whom you think of as being successful or even the average of your industry.

For example, you might have an over all return of 30% and you find that your competition or average of the industry is 30%, so you think you are all right. However, in breaking it down into two parts, you find that you have--

Asset Turnover of 2 Profit Margin of 15%

and you find your competition has--

Asset Turnover of 3 Profit Margin of 10%

This raises the question as to whether or not your profit margin is too high, thereby, causing you to lose business to your competition, or whether your asset turnover is too low, causing you to have excessive inventory, receivables or possibly idle cash or plant.

The comparisons are easy to make, because the figures needed are published for all listed stocks on the New York Stock Exchange and are in the Annual Reports of those companies not listed, or you can get them from the ordinary reports published by Dunn and Bradstreet.

PROJECTED RETURN ON ASSETS

It isn't too difficult to determine your return on total assets on a current or past basis, but the question is frequently raised:

> If such a ratio is to be of any value, it must be capable of being determined beforehand, so it can be used in forecasting.

To use this ratio on a future basis involves merely the forecasting of the factors involved:

SALES TOTAL ASSETS
PROFIT TO SALES

We all have our own methods of forecasting sales volume, so let us turn our attention to forecasting total investment and profit ratio at varying levels of operations.

Under our first item of "Generation of Working Capital", we devised the easy and hard way to determine total assets at any level of sales.

We don't have to go through that again, but at this point we know that we have our forecasted sales volume and from that have determined the total assets to be used in producing that amount of sales.

What is left is the determination of profit margin.

I assume that most of you have standard costs or flexible budgets, so that you know what your fixed and variable costs are.

Assume in our case that the fixed costs are $277,700.00 on sales of $1,000,000.00. Our fixed ratio is 27.77

Add profit of 19% on		
Assets of $	780,000.00	
Sales of	$1,000,000.00	14.83
Total percentage required for a normal profit		42.60

From these figures we apply a formula for the various levels of operation and based on the same product mix and selling prices we can arrive at our mark-up on sales.

125% Level 42.60 Minus $\frac{27.77}{125}$ Equals 20.39

100% Level 42.60 Minus $\frac{27.77}{100}$ Equals 14.83

80% Level 42.60 Minus $\frac{27.77}{100}$ Equals 7.89

From these figures, many interesting discussions and future plans for sales, financing and expansion can be developed and especially so if such figures are on a plant or product or product lines or the addition of a new product line.

RETURN ON EXPENDITURES FOR CAPITAL ASSETS

Next to earning a profit and obtaining the largest possible return on total assets employed, an important problem facing management is its expansion program and where the money will come from. One important source of funds are those derived from the capital expenditure itself--

How Fast)
) Pay out
How Long)

In general, there are three methods of determining the rate of return to be obtained from the expenditure of any sum of money:

Simple Investor Method
Average Book Method
Bankers Repayment Method

Each of these methods give a different return.

Simple Investors Method

Annual earnings or profit after depreciation / Total capital invested	Rate of return
$6,000.00 / $40,000.00 Equals	15%

This method follows the average investor's concept of rate of return since stocks and bonds are usually quoted on this basis. This method is often criticized on the premise that it does not realistically account for the cash turnover from depreciation and this is a valid criticism.

Average Book Method

Annual operating profit after depreciation / Average net book value	Rate of return
$6,000.00 / $20,000.00 Equals	30%

This method is frequently recommended on the supposition that it measures the rate of cash turnover from depreciation charges. In analyzing this method, you will find it to be mathematically unsound.

Bankers Repayment Method

This is an adaption of the repayment plan frequently used to retire a loan. Four factors are required, but if you know three of them, and you usually do, the fourth can be solved.

Investment	$40,000.00
Life of Asset	10
Annual Net Receipts Before Depreciation	10,000.00

$40,000.00 / $10,000.00 Equals 4 YEAR PAY OFF PERIOD

PRESENT VALUE OF 1 AT COMPOUND INTEREST

Period	21%	22%	23%
1	.826	.820	.813
2	1.509	1.492	1.474
3	2.074	2.042	2.011
4	2.540	2.494	2.448
5	2.926	2.864	2.803
6	3.245	3.167	3.092
7	3.508	3.416	3.327
8	3.726	3.619	3.518
9	3.905	3.786	3.673
10	4.054	3.923	3.799
11	4.177	4.035	3.902
12	4.278	4.127	3.985
13	4.362	4.203	4.053
14	4.432	4.265	4.108
15	4.489	4.315	4.153
16	4.536	4.357	4.189
17	4.576	4.391	4.219
18	4.608	4.419	4.243
19	4.635	4.442	4.263
20	4.657	4.460	4.279

Now by referring to the table showing the present value of one dollar at compound interest and going down the table to the number of years of of life of the asset, we can solve the rate of return.

In this case, we go down to ten, which is the years of life of the asset and cross the table until we come to a figure as near four as we can find.

In this case, we find that 21% is 4.05 years and 22% is 3.92 years, so we know the rate is in between. Usually it is not necessary to go any further than this, but if you want to solve for the exact figures, you can do so by the following formula:

$$\frac{4.05 \text{ Minus } 4.00}{4.05 \text{ Minus } 3.92} \text{ Equals } \frac{5}{13} \text{ Times}_{1\%} \text{ Equals}_{.4\%}$$

Therefore, the actual rate of return is 21.0 plus .4% or 21.4%. The interest tables are available in the open market or a clerk with a slide rule can figure them out in a short while.

RATIO CONTROL

Another subject we will discuss is the ratio method of controlling a company.

The larger the company, the harder it is for those on top to keep a hand in all the details and to know intimately what is going on. They have to pass most of the responsibility on to those below them and can only determine whether or not a good job is being done by setting up ratios or guide posts which will tell them if the company is on the road to success or at least on the road the company set out to follow.

For a complete job, management would have to have a goal or ratio for every aspect of its business: sales, finance, production, etc.

We do not need to discuss all of the ratios one should have, but I suppose we can all agree that the balance sheet of a business is the final reflection of the job which is being done by management for the business as a whole.

The balance sheet is the final result of all management decisions, good or bad. If we could start from there and work forward, we could come up with an over all system of control which would tell top management at a glance where they were, where they are going, and how they are going to get there, and who is going to do it.

We have done just that in our own business and here are some of the balance sheet ratios established and which are watched very closely every month or oftener by top management.

1. Cash should always equal 50% of our current liabilities:
   This is backed up by short and long cash forecasts, so the board knows when action on raising funds will be necessary.

2. Accounts receivable should equal 16 days sales:

   This is a very simple ratio to obtain in our company. In a company which has various lines of products with different terms, it is a bit more difficult, but not impossible.

3. Pulpwood inventory will be one year's supply:

   Most of you do not have this kind of an inventory, but you do have other inventories which are comparable.

4. Raw material inventories:

   We break down our raw material inventories into major categories and compare them with days' consumption.

   In our particular case, some of our raw material inventories run from a low of 10 days to a high of 30 days.

5. Finished goods inventory will equal 10 days' production:

   This is our average. Within the average, we have 5 days' supply of fast moving items and as high as 6 months' supply of slow moving items. We control our inventories on a statistical basis.

6. Each dollar of investment in plant or equipment should produce at least $2.00 of sales:

   Each dollar of investment in plant or equipment must equal or better the return now being made by the present equipment.

7. All bills will be paid promptly and all discounts will be taken.

8. Total invested capital shall approximate 60% borrowed and 40% equity.

9. Return on total assets shall be 12% on sales before taxes with a 2 time turnover or 24%.

We also set up a similar set of ratios for our operating personnel and sales personnel, each dealing with their own sphere of the business, and we have found from past experience, that if we maintain these ratios or do better, we will operate successfully because they are as good or better than our competition or the average of the industry.

You, too, can set up such a set of ratios and by comparing them on a monthly or quarterly basis, whichever is best in your particular industry, you will know if you are on the right track, or if a detour is necessary to get back to where you should be, and you will know it soon enough to avoid any undue loss of profits, sales position, etc.

KEEPING ON THE PROFIT BEAM

Business budgeting has as its primary objective, the planning of a course which leads to profit. Unless there are profits, there will be no need for budgeting--at least in the long run, because the business will be bankrupt.

However, for the past 15 years, it has not been necessary to be conscious of staying on the profit beam. The second world war followed by the filling of pent-up demands, followed by a police action in Korea, contributed to an ever expanding volume of business with practically automatic profits. Many of our younger executives of today, those under 45, do not know what it is to operate a business where sales are not always 10% greater than a year ago and profits correspondingly so.

Buyers have stood in line waiting for our goods --we have been dividing a shortage. Getting the goods out has been more important than cost and profit control. Profits came from non-competitive pricing, inventory pricing and over-absorption of fixed expenses.

Today, it is a different story. Our businesses are vulnerable. Corporations are reporting drops in profits all out of proportion to drop in sales volume. Business failures are increasing.

FINANCIAL MAN'S ROLE

This means that you and I are in the driver's seat with respect to knowing why these things are taking place. It is our duty to keep management appraised of the change in business climate.

In this regard, there are four principal areas:

1. Individual responsibility
2. Empire building
3. The toll of perfectionism
4. Operating on the principle of fear

Business as a whole is managed by alert, aggressive, competent individuals, who have goals and ambitions in life for themselves and their families and they are going to reach them, just as we are trying to reach ours. If they achieve their goals by responding to the profit motive in your business, then we will be on the profit beam. If they do not, then we are in for trouble.

INDIVIDUAL RESPONSIBILITY

Trying to get every individual in the organization to achieve his ambition by the profit motive involves:

1. Recognize his contribution to profits
2. Measure his contribution to profits
3. Reward his contributions to profits

These steps are relatively easy to take at the top levels which concern themselves with overall efficiency or operation and profit by plants, product lines, divisions, etc. Below that level, everything is inter-dependent--nothing makes a profit by itself. Production without sales renders no profit. Distribution without production is impossible. This is the problem facing us as budget men and advisors to management. We must, through our accounting techniques and our managerial skills, determine a formula so that contributions to profit at these levels can be definitely recognized, precisely measured and effectively rewarded.

We must see to it that an employee has more to gain by contributing to profitability of our company than to any other single thing he can do.

EMPIRE BUILDING

Empire building is where the company relegates profitability to a secondary place, and in which the motives of those responsible are other than the profit motive.

Is your company one that makes products for sentimental reasons, being first in the field with the product, or a policy of continued growth at any cost, or rounding out a product line just to have the line rounded out, but where the market in any substantial quantity just does not exist, or where management undertakes a policy of being self-contained just to be self-contained.

It is your duty to bring these items to the attention of your management and let them know what they are costing in terms of wasted capital, low turnover, low profit margins, and most of all, time and effort.

THE TOLL OF PERFECTIONISM

Then we have the toll taken by perfectionism. This is the management who does not want to know that the cost of a particular action is approximately $900.00. They want the exact figure of $900.22. How much time and energy did it take to calculate the additional cost. Of course, you want to give management facts. They need them to make intelligent decisions and operate the business on the profit beam, but extended application of this obsession for precision for detail in all phases of accounting, planning, production, sales, finance, etc. lead only to impairment of profit.

In this same category is the management who can never build anything just for the use to which it will be put. It has to be the show place of the town or the industry. Thereby, saddling themselves with lost working capital and continuing fixed charges for many years to come.

You who are responsible for the success of your companies must have the courage to get your management out of the ivory towers of perfectionism and get them to substitute profit achievement and results for perfection in routine.

OPERATING ON THE PRINCIPLE OF FEAR

Finally, we have the management who fears trouble and to avoid trouble at all costs, will go to any extreme.

Many managers are afraid to make a mistake. They immediately clear their record--they pass the buck. They make their action look as constructive as possible and take credit for all good results. To avoid all possible chances of criticism, they insist on having excess capacity, spare parts, heavy inventories and extra personnel. They never get caught short. They are never responsible for a shutdown or delay or any trouble of any sort. No trouble ever comes home to roost at their doorstep if it can be prevented, regardless of cost.

Such managements often resist change because it is a reflection on how he has done things in the past, or it may expose them to the risk of making a mistake in the future. The avoidance of criticism is more important than the credit to be gained by working boldly and directly for what will improve profitability.

Such action as just mentioned, will show up in return on investment, total capital being used, turnover of inventory and other things previously mentioned, but have you the courage to keep your company on the profit beam by highlighting these actions.

All the actions of management come down through your department, and you are the first to know what effect the actions have on the profits of the company. You are the first to know if something can be done about it. The rest is up to you.

None of the above seven items are new or startling, but it is my hope that the presentation might be a bit different and more interesting, and that this different presentation might give you a new angle or new idea which you can use in your every day work.

If it did, I shall feel fully repaid for my efforts, and if you did get a new idea, then this has also been profitable for you.

By: B. F. Coggan
Vice President and Manager of Convair (San Diego)
A Division of General Dynamics Corporation

WHAT MANAGEMENT EXPECTS FROM THE BUDGET

This article treats its subject both in a general manner, and also specifically as it pertains to what Convair Management expects of its budget program. The author ends with a test which will enable you to determine how well your program is serving management's needs.

This subject of budgeting has always been of particular interest to me because I consider it so essential, not only in the operation of small, medium, and large industrial organizations, but also in community activities, governmental affairs, and even in the home.

I believe the best definition of a budget that I have heard goes something like this:

> "A budget is a plan of action for a business, expressed in dollar terms, for a definite period of time."

I feel this simple concept plays a significant role in creating an efficient and growing company.

A good budget program should cover all phases of a company's activities such as sales, production, overhead, capital assets, cash. etc. Of course, all of these budgets woven together bring about good financial and profit planning. The types of budget programs vary among industries, and companies within the same industry. Some companies attempt to control only direct labor, or direct material, or overhead.

At Convair we feel that controls and budgets must be established on all aspects of our business. We have what we call project budgeting which establishes budgets or targets on all elements of cost applicable to a particular program. We have very stringent controls on capital facilities which we feel is a very important part of our overall control program. We also have a very tight control on overhead. All of these facets of our business are woven into a long range financial forecast every six months. This profit plan covers a period of five years but we hope in the future to extend this time span to cover the ten year period of our product plan.

MAJOR OBJECTIVE

I believe most businessmen agree that there are two major objectives in running any business.

1. Profits - Without profits to invest in plant and equipment, and to give a return to investors, the company would cease to survive and grow.
2. Competitive Costs and Prices - Competitive costs and prices on a quality product are needed to secure business.

How does budgeting promote these objectives? It does this through establishing guide points within which company expenditures must be controlled. This limitation on the amount of costs to be incurred is set by the overall profit objectives of the company and its competitive position with respect to other companies.

In a corner drugstore, control may be accomplished by one man -- the proprietor. In a company the size of Convair, such control must be exercised by all members of supervision -- each of whom runs a small business. It is made effective by means of a budget system.

The word "budget" normally has a sobering influence on most people. It recalls late hours of work, pages of reports to read, numerous forecasts to make and scores of figures to compare. For some, the thought of a budget brings on a condition resembling nervous prostration.

People do not like restriction. Even a household budget must restrain and control. This is just as true of a business budget. Naturally, a budget does not normally arouse enthusiasm.

A man, driving his car, willingly submits to the control of signal lights, highway signs, and traffic laws. He regards his hours of work, tasks

to do, meetings to attend, and schedules to maintain as the meat and gristle of earning his living. However, this same person will frequently view his job's financial responsibilities with distaste.

MANAGEMENT TEAM WORK

At Convair we have attempted to overcome this latter problem by making supervision feel that they are part of the overall management team, charged with the responsibility to carry out a business plan.

Since budgets are tools to help a supervisor do his job more effectively and to fit his job into the overall job the company has to do, budgets must be recognized as an aid and not a hindrance. The cost reduction feature of the American competitive system has brought about our high standard of living. Yet cost reduction requires cooperative effort. Each department at Convair is a small or large business in itself. We expect our department heads to run their departments as efficiently as they would run their own business. We ask each department head to check up on his own operations by asking himself the following two questions.

(a) Have I failed to allow for a task or cost I should have foreseen?

(b) Have I failed to cut or control expenditures that are capable of being controlled?

A "yes" answer to either question means that corrective steps must be taken. As a general rule, a department head must not only accept responsibility for an over-budget condition, but he must take steps to remedy it.

BUDGET DEPT. SERVICE

To assist departments in their overhead cost control, our Budget Department analysts perform a very vital service. Our budget analysts do not command. They have no line authority over other departments. But they do counsel with supervision by listening to the supervisors' problems and then try to find methods which will assist supervision in meeting their overhead commitments. Under such circumstances, we find in most cases a complete willingness on the part of supervision to seek out the help of the budget analysts. Regarded in this light, the budget analysts are not a matter of concern and apprehension to supervision, but a welcomed sounding board for their problems.

I cannot stress too much the importance which the budget analyst or industrial engineer has in this process of bringing about good cost control. However, I feel that these people must have the proper perspective for their work and they must have the complete support of top management. The budget analyst or industrial engineer assists our department heads by providing technical assistance in preparing and analyzing budgets, by furnishing historical data, by interpreting reports and generally doing the necessary leg-work. The budget analyst or industrial engineer must know his field and must know how to get along with people. He must be able to formulate recommendations for top management. But is is most most important that the budget analyst or industrial engineer recognizes that he does not have any line authority over the department he contacts. He is only an assistant. The responsibility for operating results rests with the department head.

In this regard, it is my feeling that budget reports must be analyzed very carefully. A red figure is not always a sign of incompetence. Nor is a blue figure always a credit to a department head. It may mean a task undone or an over-liberal budget. At Convair, daily, weekly and monthly reports keep all levels of management apprised of the performance of all departments as well as overall project performance. Through special budget department weekly and monthly letters of analysis, we receive information on the problem areas with recommended action. Many of these items are discussed in our weekly staff meetings and solutions developed. We also know at all times those areas reflecting favorable performances.

MANAGEMENT MEETINGS

At Convair we have another approach which lends a significant helping hand to the problem of keeping costs before all supervisory personnel. Two or three times a year in our monthly management meetings attended by approximately 2,500 men, we review, with the use of charts on slides, our overall financial position including each program, our inventory conditions, manpower forecasts, profits and loss performance, and many other facets of our business. We have found that these reviews help us immeasurably in driving home the real importance of cost and controls in our every day decisions.

We try to give the supervisor all of the necessary tools he needs, so that he can constantly improve the efficiency of his department. As previously mentioned, budget analysts are available to assist in overhead control. In addition, our Industrial Engineering Department provides services on direct labor standard control. Each department head stimulates suggestions from his employees. Actually, if a supervisor or department head applies himself to the job of cost control, he is bound to show improvement.

We feel that a department head must be constantly aware of his costs. Almost every business decision involves spending money. If costs are not watched, we all know that a company may become non-competitive. Getting the job done effectively with the least cost possible is the mark of a superior supervisor. Each manager must instill cost consciousness into his subordinates. They, as well as management and shareholders, benefit from cost control. If each person in a company is concerned with cost control, the maintenance of budgets does not become a problem.

TEST OF COST AWARENESS

At Convair we ask our supervision to test their cost consciousness by asking themselves the following questions:

1. Do I consider the cost aspect in all of my decisions?
2. Do I instruct and inform my employees concerning efficient cost operation?
3. Do I understand budgeting and cost control as it affects my activities?
4. Do I pay close attention to budget reports that come to me and take action on them?
5. Do I encourage use of the Employee Suggestion Plan, Cost Improvement Plan and Management Improvement Plan within my jurisdiction?
6. Do I make full use of the services available to me in order to operate more economically?

We feel that if a supervisor can answer "yes" to all of these questions, he is making a significant contribution to the survival and growth of our company, and to the security of his job.

WHAT SHOULD YOU EXPECT?

In summary, management should expect at least the following results from a good, well thought out budget program:

1. Such a program should take the many diverse plans of a company and tie them into a unified whole. Setting up such a program requires forethought on the part of all supervision. It requires a definition of objectives and setting up a program to carry out these objectives.
2. The budget program should bring about a coordination of activities among departments to carry out the overall plan.
3. The budget program should be a means of control to carry out the overall plan. Responsibility should be assigned for each kind of expenditure. Budget reports should measure performance against the approved plan. Deviations from the plan should be quickly detected, analyzed and remedied.
4. The budget program should promote more economical use of working capital.
5. The budget program should reduce waste and promote efficiency.
6. The budget program should place responsibility for action on those who have been assigned the task.
7. The budget program should bring about better business judgment by reducing plans to figures.
8. The budget program should flag possible trouble areas.
9. The budget program should provide a means of determining financing needs.

These are some of the major benefits that a business should expect from its budget program. However, I feel very strongly that top management cannot expect benefits from any budget program unless they and all levels of the supervisory team are willing to support the program in every way possible. This emphasis, I believe, is the key to successful business cost controls.

JAMES P. CUMMINGS, Staff Assistant, Laclede Gas Co., St. Louis, Mo.

FRANCIS S. BESORE, Budget Analyst, R.R. Donnelley & Sons Co, Chicago, Ill.

ARTHUR C. BERGO, Budget Mgr, A.B. Dick Co, Chicago, Ill.

F. ROBERT FARLEY, Staff Acct, Albemarle Paper Mfg. Co, Richmond, Va.

MACK J. HARABURD, Chief Accountant, Allied Radio Corp, Chicago, Ill.

DONALD C. ZIEHM, Staff Asst.—Controller's Dept. Diamond Alkali Co, Cleveland, Ohio

LAWRENCE G. BRESSON, Staff Asst. to Controller, Clevite Harris Prod, Inc., Cleveland, O.

PHILIP S. SIMS, Budget Coordinator, The Premier Autoware Co. Cleveland, Ohio

ROBERT E. VEIGEL, Eng. Sr. Supvr Budget Control & Statistical Analysis, Temco Aircraft Corp, Dallas, Texas

ROBERT C. SMITH, Supvr Budgets & Price Redetermination, Temco Aircraft Corp, Dallas, Texas

LEE WIGGANT, Spec. Assignment-Budgets, Woodall Industries, Inc., Detroit, Michigan.

JOHN A. ROCHFORD, Budget & Statistics Div., Long Beach Naval Shipyard, Long Beach, Calif.

ALEXANDER LIEL, Financial Analyst, Chrysler Corp, Rivera, California

ABOUT MEMBERS

C. C. BENEDICT was formerly with the Northern New Jersey Chapter and President-Elect of that chapter, however, Clarence is now associated with the Plymouth Division of Chrysler Corporation as Assistant Comptroller, and has transferred to Detroit.

Best of Luck and congratulations to EARL LENGER, Milwaukee Chapter, who, as this notice reaches you, has left his position at Power Products Corporation to become the new Comptroller of Weber Waukesha Brewing Company at Waukesha.

Several NSBB members assisted the American Management Association with their fall seminars on Budgeting in October and November in Los Angeles. The participants were TED BEARD and ROSS STEVENS of Solar Aircraft and JAMES MAURER of Ryan Aeronautical.

Congratulations are extended to ORVILLE R. MARTIN, Comptroller of Sam's, Inc., who was just appointed to the board of directors of the same firm. Orville is a member of the Detroit Chapter.

AL FOY, Los Angeles Chapter, moves up to the position of Works Controller for his company, the A. O. Smith Corp.

Three members of the Milwaukee Chapter NSBB presented the topics for the Discussion Forum Racine-Kenosha Chapter of N.A.A. had scheduled for Tuesday, November 19th. They are KEN BENNETT, EARL LENGER and CHARLES HARTT.

Welcome - SIDNEY KNIGHT - it's a pleasure to announce that Sidney has returned to our shores after a three years' stay in Iraq. Sidney contributed a great deal to the merger of the Chicago and New York groups which became N.S.B.B. We are glad to have Sidney back with us, and hope that he can resume his active participation in the affairs of the New York Chapter.

WILSON T. SENEY of McKinsey and Company, Inc., management consultants, spoke before the 26th Annual Conference of the Controllers' Institute of America at White Sulphur Springs on November 2nd. Mr. Seney spoke to the Foods, Beverages and Allied Industries Conference group on "Planning and Controlling Distribution Costs for Growth." Mr. Seney is a member of the New York Chapter.

JOHN HORNUNG, Detroit chapter, recently addressed students of a budgeting class at Wayne State University. It was reported that John provided the students with an interesting and stimulating presentation.

William S. Leonhardt, New York Chapter member, has been named Treasurer of Commercial Solvents Corporation. Mr. Leonhardt has held a series of increasingly responsible positions in the financial and management areas of Commercial Solvent's operations. His position prior to becoming Treasurer was Budget Director.

MORE NEWS ABOUT MEMBERS

PAUL GEFFERT, Detroit Chapter, was appointed Associate Chairman of a $300,000 School Building Fund Campaign.

DONALD L. CARTLAND, former Assistant Controller of A. B. Dick Company, and past president of the Chicago chapter, has accepted a position as Controller of the University of Chicago.

MARVIN E. GOLLOB, Chicago Chapter, Lecturer in Accounting at Northwestern University, is now associated with M. S. Kuhns & Company, Certified Public Accountants, as a limited partner, Marv will continue his association with Northwestern University.

LEON FROST, Twin-Cities Chapter, has recently returned from his latest business trip to Puerto Rico. Leon has made several trips for Green Giant Company at the request of the Puerto Rican Government. His principal duties were the preparation of operating budgets, the installation of a cost and budget accounting and reporting system for a new, government - owned pineapple canning plant.

Congratulations are due DICK LEGRO, of the Los Angeles Chapter. Formerly with Lybrand, Ross Bros, Inc., Dick has moved over to the Pfahler Manufacturing Company, Newport Beach, as Executive Vice-President.

MEMBER DRIVES 500 MILES TO ATTEND CHAPTER MEETING - When we consider how difficult it is for some members to travel maybe 5 or 10 miles to the chapter meeting place, an outstanding effort such as that exerted by WILLIAM F. REUTHER of the Ralph L. Smith Lumber Company, Anderson, California deserves special notice. Bill drives 500 miles when he attends the San Francisco chapter meetings, and it isn't a once a year trip either. Congratulations, Bill.

One little letter makes a difference, and we hasten to apologize to JACK SELKOWITZ for incorrectly spelling his company affiliation in our Chapter Directory. Jack is Budget Director of R. H. MACY & COMPANY, INC. Sorry, Jack.

Attention Chapter Publicity Chairmen--- How about finding a member who would be willing to accept telephone calls from persons wanting information regarding NSBB, and your chapter specifically, and have your local phone book list the National Society for Business Budgeting. We believe that the various chapters could afford the cost and would benefit considerably. How about it?

The Tri-City Chapter had guests from the student body of the University of Iowa at one of their recent meetings.

With deep regret we report the death of one of our active members. Mr. Leroy W. Dews, Secretary-Treasurer, Cupples-Hesse Corp, suffered a heart attack and died suddenly on October 17th. Lee was a charter member of the St. Louis Chapter.

By: John T. Wheeler
Associate Professor
Business Administration
University of California
Berkeley, California

IS THERE ANY SUCH ANIMAL?

The word Budget means many things to many people, but do you know what gave Birth to the word? Its History is traced and its current connotations are aptly described with modern everday corollaries of Budgeting and Forecasting in action. Clarification of the role of Budgets in Today's Business Life is sought, with final emphasis placed on the Question of its tie-in to an Operating Plan.

Ask a cross section of the American public to tell you what word first comes to their mind when you mention the word "budget" and the overwhelming answer will be "money." Raise the same question with a group of the sophisticated members of the National Society for Business Budgeting and the answers will be more diverse. "Headache" may be the predominant answer.

Regardless of the group to which the question is put the answers will be diverse. Such diversity leads to the question: "Is there any such thing as budgeting?"

The answers given by all groups can be placed in five classes represented by the following words: control, report, forecast, analysis, people.

Many pople think of control when they hear the word "budget." This conjures up visions of a government unit where no money may be expended unless there has been a provision made for it in the budget. Others regard the budget as an accounting tool. They think of a budget as a special type of accounting report, and budgeting as one aspect of the work of an accountant. A third group think of forecasting when they think of budgets. They regard a budget as an economic device for looking into the future, and they associate with it the uncertainities which must accompany forecasting. Another group with a statistical bent think of the data and their analysis as the basic aspect of budgeting. They are interested in the charts, regression analyses and other statistical applications associated with budgets. Finally, there is a growing group that think of a budget as an aspect of management of people in a broad sense. This group associates budgets with coordination, planning, direction, motivation, or broadly administration.

With this great diversity of views one might well question whether there is such a thing as budgeting, and whether budgeting is a separable part of the operations of an organization. Perhaps we should talk about the individual aspects mentioned above and not attach the word "budget" to any of them.

ORIGIN OF THE WORD "BUDGET"

Even the word "budget" has a dubious ancestry. The following story has been passed down through the years by a long line of "budgetteers," Consequently, its authenticity is assured. Once upon a time in the land of Gaul about 200 A.D., three brothers were called before their father and told that it was time that they made their way in the world. He gave each of them his blessing and a leather pouch filled with food, gold and jewels, and sent them out into the cold, cruel world. He warned each of them to carefully guard his "bulga" which hung from his belt and to always carry it in front so it could be carefully watched. The oldest brother headed North and made his way to Norway. There he fell in love with a comely lass and they were soon married. She naturally took over the wealth which his father had given to him. Proudly she carried the pouch and the contents thereof. All the women soon were seen carrying pouches or "baggi" as they called them. The Norse brought this word to England during the time of Chaucer and it has come down to us as "bag."

The second brother went to Holland. He carried the pouch concealed under his frock, and as he prospered the bulge became bigger and bigger. The Dutch asked him what he had and he always said "bulga." They pronounced the word "bali." They soon referred to anyone with excess padding around his waistline with that term. The Anglo-Saxons carried the word to England, and we today still use the word "belly."

The youngest brother did not travel but stayed in Gaul and by careful management lived off the proceeds from the wealth that his father had given him. He became a legend, and the Old French tales of the "bougette" or little "bouge" tell of this device for living within one's means. This device later used by governments became known throughout the English speaking world as "budget." It is frightening to think of how some very minor changes in inconspicuous events which took place over 1700 years ago could have changed the word "budget" and the name of people and societies associated therewith.

BUDGETING AS WE KNOW IT

From the standpoint of etymology it is evident that the word "budget" applies primarily to the financial control aspect. Its present broader meaning--or meanings-cannot be derived by an erudite discussion of etymology. It is necessary to look at the more mundane world of business as it exists today. In recent years an increasing amount of attention has been given to the problem of "administration." This has been recognized as a vital function of a business concern and one of the keys to success. Newman defines administration as the "guidance, leadership, and control of the efforts of a group of individuals toward some common goal." (1) I would like to put before you the proposition that the budgetary process is coextensive with administration and indispensable to it. Budgeting is not a tool nor a narrow activity carried out by a few people. *It is the process by which measurable goals are established and the group of individuals are guided, led and controlled toward the attainment of these goals.*

OBJECTIVES

Let us look at each of these aspects and the way that conventional budget concepts fit into them. The broad goals of a business are established by the founders. However, no one can work efficiently unless he has an understanding of the goal toward which he is striving. It is imperative that the broad goals of an enterprise be translated into objectives which can be used by lower and middle management in decision-making. Budgets provide a useful vehicle for the establishment and communication of these operationally meaningful goals. Therefore, the budgetary process must start with the translation of the goals of the enterprise into objectives for management decision-making. This is basically a problem of communication and liaison between top management and operating management. The budget itself may be the representation of a goal.

GUIDANCE

The second aspect is guidance. This involves the "who," "what," "how," and "when" of operations. Management must coordinate and and direct the business. Herein lies the planning aspect of the budgetary process. It is operating management that must plan the operations, not some staff groups. However, management needs help. Forecasts need to be made, plans must be coordinated and consolidated so they can be looked at as a whole, and the machinery for accomplishing these results must be set in motion.

This part of the budgetary process is usually spoken of as setting up the budget. But what is it that is being set up? It is a mechanism and not a result. It is the process by which plans are formulated in the light of the goals which have been established, and the plans so formulated are brought together to assure compatibility and their likely achievement of the goals. The coordination of planning and the direction of activities are both facilitated by the budgetary process.

EXPECTED RESULT

What is a plan? It is frequently thought of as "a projected course of action." This gives the general idea of a plan but it fails to reflect the importance of alternatives and premises. Any projected course of action must have been chosen from a number of alternative choices, and its selection must have been made on the basis of explicit or implied premises.

The early days of football must have been much like a sandlot game where the only plan was in terms of organization. The man behind the center received the ball and from there on the play depended on eleven separate individuals each doing what they thought would best help towards a goal. Many businesses especially small ones are run on this basis, and management people brag about running the business by "hunch" or "instinct." They fail to realize that this means the other members of the organization are operating the same way.

The football game that most of us saw in our college days involved signals for plays which had been carefully planned in advance. Each person was told excatly what his assignment was and how he should carry it out. This is the concept of planning and budgets which we find in government and in many businesses. The formulation of the one way to do something. This is the idea of an annual budget which is only changed for major adjustments. This is no longer successful for football teams nor for progressive business.

Today we have the Split T where the quarterback has a plan but it is his option as to which alternative to select depending upon the situation he finds at the point that action must be taken. This is not a reversion to sandlot football but an advance in the art of gamesmanship. This does not permit the opposition to get set and be ready.

This same technique can be employed in business and used profitably. How many examples are there of plans which were followed to the detriment of a company because it was too late to for-

1. Newman, William H. Administrative Action, Prentice-Hall, Inc., 1951, p.l.

mulate a new plan at the time action had to be taken? Or, how many plans have been dropped at the last minute forcing action to be taken which was purely instinctive and not based upon a well considered plan? How much better it is to have alternative plans formulated to use under a different set of circumstances from those assumed for the primary plan. Then when the circumstances under which the action must be taken are known, the appropriate plan can be chosen and put into effect to achieve both efficient action and coordination.

ANOTHER COROLLARY IN LIFE

Contrast these three procedures which were observed with respect to picnic plans. One notice said a picnic will be held at the XYZ Park at 2 P.M. on a given date. The notice for another organization said that a picnic would be held at XYZ Park at 2 P.M. on a given date, but if the weather was not good it would be held in the Armory. The third organization stated that a picnic would be held at the XYZ Park at 2 P.M. on a given date, but if showers were predicted by J. Smith on his 9 A.M. weather broadcast over Station RAIN, the picnic would be held the following week at the same time and place. If the same weatherman at the same time again forecast rain, the picnic would be cancelled.

The result of these three picnics showed the effect of different planning techniques. The first picnic was attended by a few brave souls in a light but persistent rain. The picnic committee for the second picnic was deluged with phone calls as to which place they should go because the weather was threatening. Many people went to the wrong place and some just gave up and stayed home. The third picnic was postponed one week when the weatherman predicted rain on his broadcast, and it was held the second week with a large and enthusiastic attendance.

VALUE OF ALTERNATIVE PLANS

This example indicates the value of alternative plans to be chosen depending on conditions as they exist at the time a decision must be made. It also illustrates the role of forecasts in planning. An initial forecast had to be made that rain was a possibility on the proposed date of the picnics. This showed that alternative plans were desirable. Then a forecast at a specific point at which the decision had to be made became the basis for choice of alternative. This did not guarantee a perfect decision but it increased the likelihood of a successful decision.

Business needs to more consciously think in terms of alternative plans and only commit themselves to a single plan when the decision point is reached. If the initial forecast is almost sure to be right, no alternative plans are needed. If the initial forecast cannot be made because too many possibilities exist, then alternatives formulated at this point would be useless and too expensive.

However, there are many situations where a few alternative plans can cover almost all possibilities. Furthermore, the choice of a single plan which is made on the basis of explicit assumptions point up the necessity of revision of the plan if the assumptions prove to be incorrect.

Last year a company had developed a training plan for personnel based on certain assumptions with respect to their operations. These assumptions were not made an explicit part of the plan. When the assumptions proved wrong because of a change in the facilities of the company, the personnel training plan was continued because the people carrying out the plan had no specific way of knowing the assumptions upon which the plan had been based. The result was a temporary surplus of highly trained and highly paid personnel whom they could not utilize.

MOTIVATION

The third aspect of the budgetary process involves leading or motivation. People not only need to know how to do things, they must be made to want to do them. There is probably more unused capacity in most businesses due to lack of motivation than to any other factor.

Budgeting can be an important part of the motivation process-both positively and negatively. Budgets which specify goals toward which organizations should strive and provide the direction and means by which such goals can be attained are positive forces in motivation. They provide an incentive for forward steps and a striving for an ever higher level of attainment. They may also give middle and lower management the rules or means within which they must operate while still leaving them free to express their individual initiative in a wide scope of their activities. The result will be greater motivation and greater productivity.

However, budgets which are unduly restrictive, unrealistic, and used by management as a weapon are likely to lead to passive resistance and a reduction of incentive to improve operations. Budgets cannot be used like the mechanical rabbit at the dog tracks. People are not fooled by false incentives. For their best efforts they need objective goals which are attainable and appropriate rewards when they are reached.

BUDGETARY CONTROL

The final aspect of the budgetary procedure is control. Unfortunately this word has been used in different ways with resulting confusion. Budget control in the strict sense of the word is exemplified by the appropriation type budget of governmental units. This is true control in that it comes before the action is taken and thus controls such action. This type of control has been used in business for such things as research, advertising and capital expenditures, but it is not what is usually thought of in business when budgetary control is mentioned.

Control in the usual sense is not control at all but a combination of guidance and a feedback system of information. Guidance is given by a plan or budget which is made available to operating management. However, top management wants to keep a record of performance for reward and for evaluation of plans so as to improve the planning process. In addition the operating management wants a running account of how it is progressing.

This process is similar to a mile runner who has carefully laid out a plan for breaking the four minute barrier. The fans in the stands are interested in the final outcome but it will be too late for the runner. He wants times called out to him at the quarter mile marks so he can see how well he is adhering to his plan and what adjustments he needs to make to correct for errors made to that point.

SPENDING LIMITS

One further aspect of control which is important with respect to budgets is that of spending limits. Without budgets, middle management needs to ask for approval of each specific expenditure or risk serious consequences. However, through the process of budgetary approvals operating management can obtain overall approval for spending plans. They are then free to move forward the specified goals and make decisions subject only to the expenditures and policy restrictions.

A rat in a maze, which is small and restricted but which he has explored thoroughly, will be happier than one in a larger unknown maze with many unexpected hazards. In the same way, management personnel who know the limits of their authority, and can operate freely within those limits, can operate more effectively than those who have wider areas of freedom, but never know when some arbitrary restrictions or change will be upon them.

This point coupled with the need for alternative plans and a basis for knowing when to change to another alternative has led to the development of the control chart approach to budgeting. Budgets have traditionally been single-valued reports. For example, a single figure has been used for sales although it was recognized that sales might be above or below this number. In analyzing variances it has been customary to ignore small variances but seldom has there been a careful analysis to determine what "small" might be in each case. The result has been a a tendency to over-emphasize minor variations from budgets.

Control charts used in statistical quality control has become a familiar tool in most businesses The same concept can be applied in budgets to set control limits so that valuable management time will not be spent in analyzing variances which are not significant. In the same way, control charts can be used to relate actual to forecast data to indicate when variations from forecasts are significant and the plans based upon such forecasts should be revised. The control chart is just one of the many newer statistical techniques that need to be utilized in the budgetary process.

SUMMARY OF POINTS DEVELOPED

To summarize. Let us again raise the basic question of this paper. What is a budget? It is still nothing but the financial manifestation of the plans of the business for a given time period. Of and by itself it is not a great importance. The important concept is the budgetary process which is a major tool of administration. It is a process which includes all of the traditional aspects of budgeting and more. More importantly it is a process, the success of which may well determine the success of a business and of our business system as a whole.

Those people who lead in the development of the budgetary process will not be accountants, or economists, or statisticians, they will be administrators. Each of the functional specialities has much to contribute to the process but the people who succeed in building a better budgetary process to promote better administration must rise above narrow specialties and view the business enterprise as an integrated whole whose success depends upon the strength of each of the parts and the careful welding together of them.

Most of the serious problems that have developed with respect to budgeting in individual companies can be traced to the failure to take the broad view. The accountants may set up a budget which is a masterpiece of information gathering, reporting on variances, etc., but they may have completely failed to recognize the motivational aspects of the budget. Or a sales manager may establish a sales budget with the idea of placing a high target in front of the salesmen in order to spur them on to greater efforts. However, he may fail to consider that these same figures may be used as a basis for facility planning, production scheduling and personnel procurement. A budget man may develop scientific forecasts of the conditions expected the following year but he may fail to recognize that this does not constitute an operating plan.

It may be true that a business is like Hollywood in that it is no better than the figures available to it. However, in both cases it is not the person that developed the figures who gets the credit, it is the person who knows how to use them. Consequently, let us look at our budget procedures and ask ourselves the following five questions:

(1) What is the goal?
(2) How is it to be accomplished?
(3) Who must be motivated to reach it?
(4) What controls must be placed upon them? and
(5) Does this budget do the job?

By: John M. Prizer
Financial Analyst
Burroughs Corporation
Detroit, Michigan

DOUBLE ENTRY FORECASTING

Work simplification is a term dear to a Budget man's heart. The author of this article claims that there is room for simplification in our own field. He advances the theory of double entry forecasting as a means, and furthermore, he states that better coordination of plans can be accomplished through double entry forecasting. You can be the judge only after you have read and appraised this article.

In forecasting corporate operations it is important that dollar figures reflect the entire and complete effect expected to result from operating plans. For example, concentration upon the forecast of a profit and loss statement alone does not reflect production schedules, material purchases, capital investments, and fund movements. Furthermore, separate development of basic forecast elements is dangerous in that there is no assurance that these separate elements will be based upon identical foundations. Our problem, then, is one of forecasting all basic elements simultaneously, so that one foundation will be used and that fund movements will be depicted clearly. This method of forecasting is called "Double Entry Forecasting."

Among the numerous objectives and subobjectives established by corporations, one is common to all, namely, the economic objective. Merely showing a profit is not sufficient, however, for stockholders are interested in realizing an adequate return from their investment.

The obvious way for corporate management to supply stockholder return on investment is to maximize return from the invested funds they control. Such maximization may be achieved in two ways:

1. Assure that individual investments will provide return.
2. Arrange the disposition of invested funds to maximize return on the Corporation as a whole.

The latter of these two means of increasing returns is of concern here. Funds become available to Corporation from internal generation and from external sources. These funds flow into the various forms of investment, i.e., material, finished inventory, receivables, cash, fixed assets, sometimes remaining in one place and sometimes moving from one investment to another. There will be, however, some base level characteristic to all investment areas. The arrangements of funds at any given point in time is known as fund disposition.

CONTROL OF FUNDS

In divisionalized corporations, the fund flow and disposition problem is further complicated by investment in and movement among the various Divisions. All in all, control of fund disposition to maximize return is a complex matter. Good management will establish objectives and then develop operating plans to achieve these objectives. Next the plans are translated into dollar forecasts for verification of soundness, i.e., will these plans produce a reasonable return?

Forecasts usually consist of three basic elements:

1. Profit Forecast.
2. Capital Investment Forecast.
3. Cash Forecast.

Examination of these basic forecasts will not cover the entire operating plan, however, for such items as material purchases and direct labor do not appear. Secondly, if these three forecasts are developed separately, there is no guarantee that they all reflect the same operating plan. And finally, they do not indicate:

1. The effect of operating plans upon fund disposition.
2. The cause of external fund requirements reflected in the cash forecast.

In order to detect resulting fund disposition, it is necessary to forecast the balance sheet as of

the end of the period being forecast. But to make such a balance sheet forecast, we must first determine the change forecast for each balance sheet item, and then add these changes to the beginning balance sheet. These changes, in effect, are a forecast of sources and applications of funds.

Development of a source and application of funds forecast will answer points 1 & 2 above, namely, reflection of the effect of plans upon fund disposition and reflection of the cause of external fund requirements. But, to develop such a forecast we must also consider material purchases and direct labor to be incurred which will complete the picture.

SOLUTION TO BASIC PROBLEM

Our basic problem then is one of forecasting profit, capital investment, cash, and source and application of funds in such a manner as to guarantee reflection of the same operating plan by all, and to reveal the inter-relationship among the various forecast elements. Final presentation, of course, should be in the form of basic fore-cast elements, but the development of these ele-ments must be sound, and financial technicians must be in a position to explain inter-relationships.

The proposed method for sound forecasting is based upon a double entry approach. A forecast is merely a summary of all accounting entries anticipated during the forecast period. Why then should we forecast one half of the entries in developing a profit forecast, and then turn around and forecast the offsets to these entries in developing cash and source and application of funds forecasts? Is it not more logical to forecast each entry in its entirety as we come to it? The final effect will be a set of abbreviated corporate books on a forecast basis from which we can draw profit, capital investment, cash, and source and application of funds forecasts in the same manner in which we develop actual financial statements.

With this double entry approach, however, we have added advantages:

1. Guaranteed balance among forecast elements.
2. Basis for analyzing causes and effect relationships.
3. Reduction in time consumed in forecasting by not developing elements separately which requires at least two separate con-siderations of each entry.
4. Reduction in forecast time consumed by not having to adjust and re-adjust figures in order to balance basic forecast elements.
5. Clarification of relationships where inter-divisional transactions are involved.

A PRACTICAL DEMONSTRATION

Double entry forecasting may be applied as follows. As in the case of all forecasts, we start with the translations of operating plans into dollars. These translations take the forms of:

1. Revenue forecast.
2. Burden applied.
3. Depreciation.
4. Departmental expenses.
5. Miscellaneous corporate expenses.
6. Production schedule.
7. Inventory purchases.
8. Capital investment.

Next, starting with the profit forecast items, we make a double entry for each item in the forecast as follows (see EXHIBIT):

1. Revenue - Sales		
Debit-A/C Receivable	$100	
Credit-P & L		$100
2. Product Cost		
Debit-P & L	$ 50	
Credit-Inventories		$ 50
3. Burden Applied		
Debit-Inventory	$ 5	
Credit-P & L		$ 5
4. Depreciation		
Debit-P & L	$ 10	
Credit-Depreciation		$ 10
5. Departmental Expenses		
Debit-P & L	$ 30	
Credit-Wages Payable		$ 20
Credit-A/C Payable		$ 10
6. Miscellaneous Corporate Expenses		
Debit-P & L	$ 5	
Credit-A/C Payable		$ 5
7. Income Tax		
Debit-P & L	$ 5	
Credit-A/C Payable		$ 5
8. Profit		
Debit-P & L	$ 5	
Credit-Retained Earnings		$ 5

At this point we have completed the profit fore-cast with all of its offsets and closed the profit and loss statement out to the retained earnings account on the balance sheet.

SUPPLEMENTARY ENTRIES

The following entries cover those portions of operating plans which do not appear in the profit forecast.

9. Production Schedule, Direct Labor		
Debit-Inventory	$ 30	
Credit-Wages Payable		$ 30

If so desired, inventory could be broken down into raw material, in process, and finished. If such were the case, we could show the movement

of materials from raw material inventory to in process, to finished goods, at this point but for this example we will use only one inventory account.

10.	Inventory Purchases		
	Debit-Inventory	$ 25	
	Credit-A/C Payable		$ 25
11.	Capital Investment		
	Debit-Fixed Assets	$ 40	
	Credit-A/C Payable		$ 40

Entries 1 through 11 represent our operating plans. They reflect the internal generation of funds, (i.e., profit of $5 plus depreciation of $10) and planned fund applications to inventories and fixed assets.

CASH FLOW

It follows from here to examine the effect of these plans upon cash in the development of the cash forecast.

12. It is anticipated that $95 will be remitted by customers against existing receivables and against the additional revenue billing of $100.

Cash Receipts		
Debit-Cash	$ 95	
Credit-A/C Receivable		$ 95

13. Of the wages payable liability accumulated from expense and direct labor, it is anticipated that $50 will be paid out.

Payrolls		
Debit-Wages Payable	$ 50	
Credit-Cash		$ 50

14. It is anticipated that $20 will be paid against liabilities incurred through inventory purchases

Inventory purchases		
Debit-A/C Payable	$ 20	
Credit-Cash		$ 20

15.	Capital investment		
	Debit-A/C Payable	$ 35	
	Credit-Cash		$ 35

16. It is anticipated that $15 will be paid out against liabilities resulting from expenses other than wages.

Expenses		
Debit-A/C Payable	$ 15	
Credit-Cash		$ 15

17.	Federal Income Taxes		
	Debit-A/C Payable	$ 4	
	Credit-Cash		$ 4

In developing the cash forecast some judgment must be applied regarding the expected movement of accounts receivable and of current liabilities. However, past experience usually serves as an excellent guide to the behavior of these two accounts. In fact, insuring the compatibility of receivables and liability behavior with past experience serves to increase the validity of the resulting cash forecast.

END RESULTS

It requires nothing more than totaling individual columns (see EXHIBIT) and netting account balance changes to complete the picture. From the P & L column we can remove the profit forecast. from the cash column we can remove the cash forecast, from the fixed asset column the capital investment forecast, and across the bottom appears the source and applications of funds forecast derived automatically.

Note that the cash account indicates a net credit of $29 before external fund requirements. In this case it was assumed that no decline in cash balance was desirable, hence, existing operations reflect external fund requirements of $29. The method of financing these requirements is for management to decide in conjunction with forecast reviews, hence the amount is left as a balancing figure only.

The resulting source and application of funds forecast is:

FUND SOURCES		
Net Income	$ 5	
Depreciation	10	
Current Liabilities	11	
External Fund Requirements	29	
Total Fund Sources		$55
FUND APPLICATIONS		
Receivables	$ 5	
Inventories	10	
Fixed Assets	40	
Total Fund Applications		$55

INTER DIVISIONAL TRANSACTIONS

Double Entry Forecasting is especially useful in divisionalized corporations where inter-divisional transactions result in fund flows among the divisions. By adding a current account column to the double entry work sheet and by requiring each division to submit a double entry forecast, it becomes but a mechanical task to trace fund movements. Also, this procedure provides a means of checking that Division A forecasts as billing to Division B the same figure that Division B shows as billing from Division A.

SUMMARY OF BENEFITS

In conclusion, we can state that a Double Entry Forecast is a complete summary of all accounting entries anticipated to be made during the forecast period. Use of Double Entry Forecasting will:

1. Assure that profit, cash, and capital investment forecasts all tell the same story.

2. Forecast source and application of funds automatically with the development of the three fundamental forecasts.
3. Assure that the source and application of funds forecast is an accurate representation of the story told by profits, cash, and capital investment forecasts.
4. Provide a check on the reasonableness of profit, cash and capital investment forecasts through examination of the reasonableness of source and application of funds and balance sheet forecasts.
5. Reduce the probability of and amount of forecast revisions by enabling individual divisions to observe the reasonableness of fund requirements resulting from their respective forecasts.
6. Present clearly inter-divisional transactions, thereby reflecting fund flow among and requirements of the various divisions.
7. Present more clearly the overlap among profit, cash, and capital investment forecasts.
8. Provide a better over-all view of the financial implications of operating plans.

EXHIBIT

DOUBLE ENTRY FORECAST

	P & L		BALANCE SHEET															
			Cash		A/C Rec		Inventory		Current Liabilities		Fixed Assets		Depreciation Reserve		Debt		Retained Earnings	
	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
P & L																		
1. Revenue		100			100													
2. Product Cost	50							50										
3. Burden Appld.		5					5											
4. Depreciation	10													10				
5. Dept. Expense	20									20								
Dept. Expense	10									10								
6. Misc. Expense	5									5								
7. Income Tax	5									5								
8. Profit	5																	5
Misc																		
9. Direct Labor							30			30								
10. Inventory Pur							25			25								
11. Capital Pur.										40	40							
Cash																		
12. Customers			95			95												
13. Payrolls				50					50									
14. Inventory Pur				20					20									
15. Capital Pur.				35					35									
16. Expenses				15					15									
17. Income Tax				4					4									
Net Balance	-	-		29	5	-	10	-	-	11	40	-	-	10	-	-		5
Debt			29													29		
S & A of Funds	-	-	-	-	5	-	10	-	-	11	40	-	-	10	-	29		5

Philosophy of The National Society For Business Budgeting

If you have a dollar, and I have a dollar and we exchange dollars, we still have each only a dollar.

But if you have an idea, and I have an idea and we exchange ideas, we then each have two ideas.

HERBERT CLARK WILSON, Supvr-Budgetary Control, North American Aviation, Inc., Los Angeles, California
RICHARD R. MALZAHN, Mgr. Budget Dept., West Bend Alum. Co., West Bend, Wisc.
KENNETH H. BENNETT, Budget Control Mgr., Cutler-Hammer, Inc., Milwaukee, Wisc.
EDWARD A. LAMMERS, Budget Director, Beloit Iron Works, Beloit, Wisc.
FRED J. NIMIS, Budget Mgr. & Cost Estimates, Rayette, Inc. Co., St. Paul, Minn.
GILBERT W. URBAN, Mgr. Acctg. Div., First National Bank, Minneapolis, Minn.
HARRY SCHUR, Controller, Sun Clothes, Inc. & Jay Co., Philadelphia, Pa.
FRED N. MINTER, Mgr. of Indirect Budgets, Convair-Div. Gen'l Dyanmics Corp., San Diego, California.
MERRILL HEADRICK, Assist. Controller, Fibreboard Paper Prod. Corp., San Francisco, Calif.
IRWIN E. PIO, Budget & Cost Director, Webcor, Inc., Chicago, Ill.
JAMES D. MILLER, Asst. Budget Supr., David Bradley Mfg. Works, Bradley, Ill.
CHARLES G. HENDRICKS, Budget Director, Motorola, Inc., Chicago, Ill.
THOMAS L. GLEASON, Budget Analyst, Inland Steel Co., Chicago, Ill.
KENNETH R. DeCELLAS, Budget Director, The Greyhound Corp. Chicago, Ill.
LAWRENCE FELDHUHN, Controller, Burndy Corp., Norwalk, Conn.
EDWARD M. LOCKWOOD, Treasurer, The Sprague Meter Co., Bridgeport, Conn.
EDWARD R. LYNCH, Financial Control Supr., Edwards Company, Inc., Norwalk, Conn.
WALTER L. LARKIN, Budget Supr., Std. Packaging Corp, New York, N.Y.
ALVIN F. KNOCHE, Supr. Acctg & Budget Section, Lockheed Aircraft Serv. Intern'l Inc., Jamaica, N.Y.
CHARLES W. FOWLER, Supr. Budget & Statistics Div., Michigan Consolidated Gas Co, Detroit, Michigan.
LEROY V. JOHNSON, Supr of Acctg, Billboard Publishing Co, Cincinnati, Ohio
JOHN F. AICHELE, JR., Budget Accountant, International Resistance Co, Phila. Pa.
WILLIAM THOMAS RENNIE, JR., Coordinator of Budgets & Reports, Smith Kline & French Laboratories, Phila, Pa.
THOMAS M. DICKERSON, Chairman Dept. of Acctg., Western Reserve University, Cleveland, Ohio.
JOHN H. REESE, Mgr. Fin. Analysis Sec., Controllers Dept., Atlas Powder Co., Wilmington, Delware.
WILLIAM P. EDMUNDS, Secy & Asst. Treasurer, Superior Separator Co, Hopkins, Minn.
WILLIAM S. LEONHARDT, Budget Director, Commercial Solvents Corp. N.Y., N.Y.
KENNETH T. RYAN, Budget Supervisor, Nat'l Starch Prod, Inc., N.Y., N.Y.
THOMAS R. BERGER, (Partner), Chas. H. Bilz Agency, Covington, Kentucky
HERMAN F. ROTTINGHAUS, Controller-Asst. Treas, U.S. Shoe Corp, Cincinnati, Ohio
WILBUR W. RECHER, Supr of Budgets, Mosler Safe Co, Hamilton, Ohio
EDWARD C. CORWIN, Asst. Treas, Stow & Davis Furniture Co, Grand Rapids, Mich.
RAYMOND L. DORAZIO, Asst. Supr of Budgets, Youngstown Kitchens Div. Am. Stan, Warren, O.
ELMER J. SWARTZ, Chief Accountant, Union Metal Mfg. Co, Canton, Ohio
HAYS T. WATKINS, JR., Chief of Budget Services, Chesapeake & Ohio Rwy, Co, Cleveland, Ohio
JOHN GAWA, Mgr. Budget & Profit Control Dept., Publicker Industries, Inc., Radnor, Pa.
HARRY GREEN, Asst. Treas, Republic Natural Gas Co, Dallas, Texas
PAUL M. ROMINE, Staff Accountant, Union Starch & Refining Co, Inc. Granite City, Ill.
JAMES R. HARSH, Factory Controller, Union Starch & Refining Co, Inc., Granite City, Ill.
SAMUEL W. KEITH, Assist, Controller, Atkins, Saw Div. – Borg-Warner Corp. Inds., Ind.
JOHN PROESCHEL, JR, Mgr. Budget Dept. Automobile Club of Southern Calif, Los Angeles, California.
EDWIN NELSON DRAKE, Asst Budget Admin., Ramo-Wooldrige Corp, Palos Verdes Estates, California
JACK C. CANNADY, Indirect Budget Analyst, Convair – Astronautics, San Diego, Calif.
GEORGE W. ROBERTS, Asst. Controller–Budgets & Cost, Theo. Hamm Brewing Co, St. Paul, Minn.
EUGENE F. CONNOLLY, Sr. Acct., Merck & Co, Inc, Rahway, N.J.
MATTHEW GREEN, Controller, Plastoid Corp, Hamburg, N.J.
HENRY DEHR, Budget Acct., Victor Mfg. & Gasket Co., Chicago, Ill.

SPECIAL CHAPTER AFFAIRS

We have recently received a number of special mailings from various chapters which indicate that a certain amount of broadening out of Chapter programs is taking place throughout our organization.

Three such meetings, called to our attention, deserve special notice and acclaim. They are:

1 – Cleveland Chapter's Fall Seminar
2 – Dayton Chapter's Tri-State Meeting
3 – Chicago Chapter's February Seminar

The inside of one of Cleveland's mailing pieces is reproduced below, and you can see that the fine hand of experience left over from the planning of the Sixth Annual Conference has been utilized. Reports are that the Seminar was a big success.

PRESENTS

A FALL SEMINAR

on

November 25, 1957

in

THE EMPIRE ROOM

of

HOTEL CLEVELAND

PROGRAM

1:30 - 2:00 P.M.
REGISTRATION – OPENING REMARKS

2:00 - 3:00
I. BUDGETING AS A MANAGEMENT TOOL
Marshall K. Evans – *Budget Director*
Westinghouse Electric Corporation, Pittsburgh, Pa.
Chairman: Richard E. Austin

3:00 - 4:00
II. BUDGETING FOR CAPITAL EXPENDITURES
Gordon Cook – *Controller Hardware Division*
Ford Motor Company, Ypsilanti, Michigan
Chairman: Leonard L. Krause

4:00 - 5:00
III. RETURN ON INVESTMENT
G. E. Harrington – *Control Department*
E. I. duPont de Nemours & Co., Wilmington, Delaware
Chairman: Robert F. Goodwin

5:00 - 7:30
COCKTAILS AND DINNER

7:30 - 9:00
IV. CLINIC ON RELATED SUBJECTS OF THE SEMINAR
Moderator: Dr. Arthur J. Noetzel, Jr., *Dean of Business School*
John Carroll University
Panel: Gordon Cook – Ford Motor
Marshall K. Evans – Westinghouse Electric Corporation
G. E. Harrington – duPont de Nemours

The Dayton chapter sponsored a Tri-State Meeting on November 12, 1957 with members of Louisville, Indianapolis and Cincinnati Chapters participating. The principal speaker at this affair was our National President, CHARLES ECKELKAMP, who delivered an excellent talk on Developing, Installing and Operating a Budgetary Plan.

Since our roving photographer, MFL AICHHOLZ was present, we are able to present pictures of this event.

The Chicago Chapter is planning their Seminar for February 18, 1958 and though we are not in receipt of their full program, we can say that, based on preliminary mailings, it appears that the day will not lack for interest and variety. If you are interested, write, STANLEY A. BAUM, The Herst-Allen Company, 1901 West Carroll Avenue, Chicago 12, Illinois.

How about your chapter? Advise us and we will find the space to print the story. What we don't know, we can't print.

KNOW YOUR OFFICERS

ARTHUR D. MOOR
VICE-PRESIDENT

R. VISSCHER MILLAR
VICE-PRESIDENT

Art, is the quiet, soft-spoken type of individual and by this very nature is forceful and convincing in all his undertakings. NSBB is proud to have him in the organization, especially for his work in adding to the West Coast representation in NSBB.

Art was the First President of the San Francisco Chapter, and now serves as National Vice-President. We have learned that Art has a number of thingsof which he is proud. Among them are:

1 - His Wife - Ruth

2 - His Children - Barbara-13, & David-10

3 - His Company - United Air Lines

4 - His University - DePauw

5 - His Membership in NSBB

Perhaps we should have placed his University first, because that's where everything started. His wife was a Coed there and he immediately (1935) went from College to work for United Air Lines, first in New York, then Chicago, next Denver and in 1952 he moved to the Maintenance Base in San Francisco.

Art's interest in Budgeting goes way back. He was Budget Manager for United in Chicago in 1940, and his interest hasn't dimmed at all. Art, we are as proud of your membership in NSBB as you are!

We don't know exactly how the Photographer actually pinned down Visch long enough to get his picture, because in the years Visch has been associated with NSBB, he has been so active that it is difficult to remember him sitting still.

Visch's activity in NSBB affairs started with a charter membership in the Philadelphia chapter, and holding various offices including the chapter Presidency. In the National Visch served excellently as a Director and National Secretary, and currently is National Vice-President.

Visch spent his early years in New York and holds BS and MS degrees in Business from Rutgers and Columbia Universities. He was associated with B. Altman & Co. as Asst. to Vice-Pres. before joining his present company Pennsalt Chemicals Corporation in 1940. He has held various positions in the Sales and Financial Division and is at present Controller of the Chemical Specialties Division.

Visch is willing to speak any time he is asked, and has demonstrated his ability before a number of National Business organizations. He is also an Instructor in the Graduate School Drexel Institute of Technology.

Visch is married and has a son, Francis, who is twelve, and this probably accounts for his activities in the Boy Scouts of America.

You have to move fast and listen fast when Visch is around, because there is no slow tempo in his make-up.

Both our National President, CHARLES ECKELKAMP and our First Vice-President HAROLD MASON have had their histories brought to light in past issues of Business Budgeting, so we have by-passed them to present the new faces shown above.

NOTICE

TO ALL MEMBERS

The Board of Directors, at the fall meeting held on September 20, 1957 in St. Louis, Mo., voted in favor of the recommendation submitted by the Executive and Planning Committees to increase the National share of membership dues from $10.00 to $15.00 and the subscription price of the "Business Budgeting" magazine from $5.00 to $10.00 per year to non members, both effective July 1, 1958.

The Directors, also adopted a Resolution, which reaffirmed a previous decision to leave the total dues assessed by a chapter to the decision of the chapter.

This action is in accordance with Article V, Section 4, of the By-Laws. The reasons are best explained by relating briefly a history of the Society, past, present, and future operations and financial condition.

The National Society for Business Budgeting was formed by the merger in 1951 of two groups of budget specialists now identified as the Chicago, Milwaukee, Twin Cities and New York Chapters. As of July 1957, it was composed of 21 chapters and a total membership of 843. It is estimated that by 1962, we will have between 35 to 45 chapters and perhaps 1600 members or more.

A permanent Planning Committee was organized in the early part of 1957, to continually study the problems inherent with growth, prepare a long term program and financial forecast, thereby permitting the National Officers and Directors to resolve such problems in an orderly and effective manner.

Growth obviously means more chapters and members. But size, in itself, does not mean progress, unless we also expand and improve our operating methods to accomplish the objectives of the Society which basically are services to our members, industry and educational institutions. Growth also means more work for those responsible for administering the Society's affairs.

Since the inception, practically all of the work at the National and chapter level has been performed on a voluntary basis. The organization has also been fortunate, in, that, an immeasureable amount of operating expense has been absorbed by the members at their companies. But we have reached a period, where we are too small to establish a permanent paid staff and too large to continue on a 100% voluntary basis, nor, can we rely upon the members and their companies to defray our operating expenses.

Our main source of income is a share of chapter dues. A secondary but uncertain source is net income from the annual conferences. The current year's budget indicates that the operating expenses will exceed the receipts and although we have sufficient cash on hand to pay these expenses, the bank balance by July 1, 1958 will be quite low.

The current year's expenses are estimated to be approximately $4,400 more than last year. This is due mostly to the hiring of an Administrative Secretarial staff for $3,600 and operating expenses for the Research Committee of $1,000. Allowances for other activities such as chapter formation and the National publication have also been increased.

Our future plans contemplate hiring on a temporary basis, a professional assistant to handle national publicity and to the extent deemed necessary assist the annual conference committee; publication of an annual membership directory or year book; establish a small office, consolidate several administrative operations and hire on a full time basis the necessary staff to handle the routine affairs; consistent with growth, financial condition and plans to expand and improve service to members.

Since this organization is composed of persons who understand and fully appreciate the benefits of long term planning, we are confident you will whole-heartily support our plans and the action of the Board in increasing the National portion of the membership dues.

C. H. Eckelkamp, President
On behalf of the Board of Directors

MEET THE EIGHTH ANNUAL NSBB NATIONAL CONFERENCE CHAIRMAN

William J. Edmonds
Standard Oil Co. of N.J.

This Is For You!